

**REPORT OF THE AUDIT OF THE  
NELSON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Dean Watts, County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

The enclosed report prepared by Stephens & Lawson, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Sheriff of Nelson County, Kentucky, for the year ended December 31, 2001.

We engaged Stephens & Lawson, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, PSC, evaluated the Nelson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", written in a cursive style.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
NELSON COUNTY SHERIFF**

**Calendar Year 2001**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE NELSON COUNTY SHERIFF**

**For The Year Ended  
December 31, 2001**

Stephens and Lawson, P.S.C. has completed the Nelson County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess fees decreased by \$71,987 from the prior calendar year, resulting in excess fees of \$104,919 as of December 31, 2001. Revenues increased by \$151,932 from the prior year and disbursements increased by \$79,945.

#### **Report Comment:**

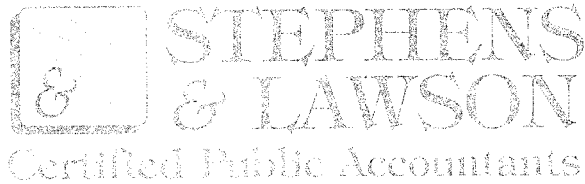
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



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To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
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Independent Auditors' Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Nelson County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report dated October 1, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton Secretary, Revenue Cabinet  
Honorable Dean Watts, County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

Based on the result of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully Submitted,

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 19, 2002

NELSON COUNTY  
MIKE NEWTON, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Grants		\$ 71,387
State Fees For Services:		
Finance and Administration Cabinet		38,213
Circuit Court Clerk -		
Fines and Fees Collected	\$ 27,894	
Sheriff Security Services	<u>24,676</u>	52,570
Fiscal Court		10,519
County Clerk - Delinquent Taxes		1,219
Commission on Taxes Collected		405,072
Fees Collected For Services -		
Auto Inspections	\$ 8,715	
Accident and Police Reports	1,110	
Carrying Concealed Deadly Weapon Permits	13,049	
Serving Papers	37,060	
Sheriff's 10% Add-On Penalty Fees	41,871	
Transporting Prisoners	<u>9,174</u>	110,979
Miscellaneous		1,448
Interest Earned		7,368
Borrowed Money:		
State Advancement		<u>145,105</u>
Total Receipts (Carried Forward)		<u>\$ 843,880</u>

*The accompanying notes are an integral part of the financial statement.*

NELSON COUNTY  
MIKE NEWTON, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2001  
(CONTINUED)

Total Receipts (Brought Forward)		\$ 843,880
<u>Disbursements</u>		
Operating Disbursements -		
Personnel Services -		
Deputies' Salaries	\$ 275,553	
Part-Time Salaries	13,978	
Other Gross	119,262	
Overtime	<u>24,379</u>	\$ 433,172
Employee Benefits		
Employer's Share Retirement	\$ 10,152	
Employer Paid Health Insurance	<u>40,315</u>	50,467
Material and Supplies -		
Office Materials and Supplies	\$ 6,174	
Uniforms	<u>1,659</u>	7,833
Auto Expense -		
Gasoline		13,713
Other Charges -		
Carrying Concealed Deadly Weapon Permits	\$ 8,315	
Conventions & Training	1,501	
Dues	1,210	
Postage	888	
Radio Maintenance and Repairs	660	
Transporting Prisoners	4,766	
Vehicle Maintenance and Repairs	3,232	
Miscellaneous	<u>225</u>	20,797
Debt Service -		
State Advancement		<u>145,105</u>
Total Disbursements		<u>\$ 671,087</u>

*The accompanying notes are an integral part of the financial statement.*

NELSON COUNTY  
MIKE NEWTON, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2001  
(CONTINUED)

Net Receipts	\$ 172,793
Less: Statutory Maximum	<u>67,874</u>
Excess Fees Due County for Calendar Year 2001	\$ 104,919
Payment to County Treasurer – October 15, 2002	<u>104,919</u>
Balance Due at Completion of Audit	\$ <u><u>0</u></u>

*The accompanying notes are an integral part of the financial statement.*

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2001  
(CONTINUED)

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM - Continued

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

NOTE 3 - DEPOSITS

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66-480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 13, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$552,902 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at the depository institution in question as of November 13, 2002.

	Bank Balance
Collateralized with securities held by pledging depository institution in the county official's name.	\$ 7,100,000
Uncollateralized and Uninsured	<u>552,902</u>
Total Deposits	\$ <u>7,652,902</u>

NOTE 4 - FORFEITURE ACCOUNT

The Sheriff began with a balance of \$6,072 of forfeited drug money. Pursuant to the Nelson County District Court Order, these receipts are to be used in drug-related law enforcement. During the year, the Sheriff had disbursements of \$0 and receipts of \$0, leaving a balance as of December 31, 2001 of \$6,072.

NOTE 5 - DARE ACCOUNT

The Sheriff operates a DARE account with funds received from donations. The beginning balance was \$2,950. During the year, receipts totaled \$8,079; disbursements were \$4,769, leaving a balance as of December 31, 2001 of \$6,260. These funds are to be used for Drug Awareness Resistance Education for children.

NOTE 6 - SUBSEQUENT EVENT

The Sheriff paid excess fees of \$104,919 on October 15, 2002. Payment was made after the audit had been completed.

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**COMMENT AND RECOMMENDATION**



**NELSON COUNTY  
MIKE NEWTON, SHERIFF  
COMMENT AND RECOMMENDATION**

**Calendar Year 2001**

**STATE LAWS AND REGULATIONS**

**The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits**

On November 13, 2001, \$552,902 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response:*

*We will discuss this matter with the bank to ensure that the pledge is sufficient to cover deposits in the future.*

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REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
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Honorable Dean Watts, Nelson County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of the Financial  
Statement Performed in Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Nelson County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated September 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully Submitted,

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 19, 2002